

De-Unionization and Macro Performance: *What Freeman and Medoff Didn't Do*



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Philadelphia, Jan. 7, 2005

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Freeman & Medoff: *Two Faces*

❑ What is union sector like?

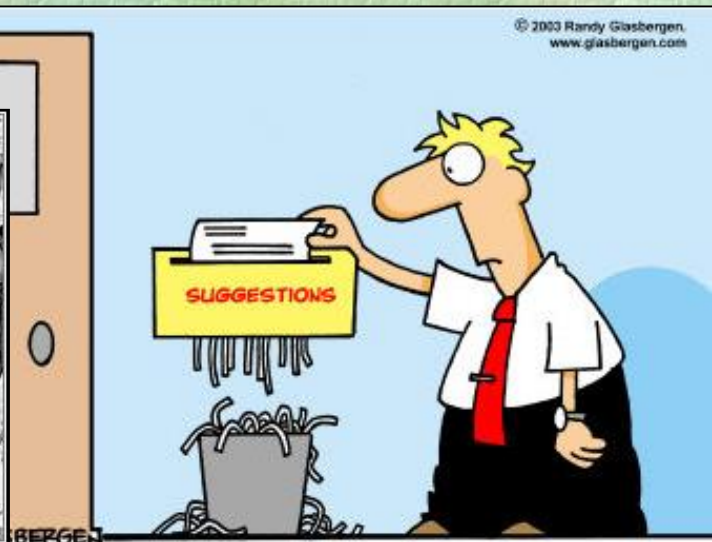
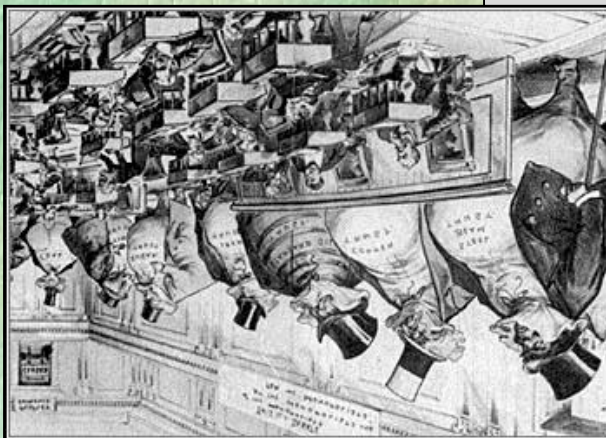
- Monopoly (bad)
- Voice (good)



❑ What is nonunion sector like?

- Presumably, the opposite of union
- “Competitive” with less voice (maybe less than optimal voice)

❑ *Unexplored model of nonunion labor market* led to neglect by F&M of macro & micro implications



The inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract and employers who are organized in the corporate or other forms of ownership association substantially burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries.



Preamble to 1935 Wagner Act

Wagner and Pre-Wagner Assumptions



❑ Opposite of union labor market is monopsony, not textbook competition



- Monopsony undermines laissez-faire assumption that compensating wage differentials, etc., will lead to optimal balancing of worker & employer preferences
- Absent regulation, insufficient benefits, safety, security, voice, as well as too-low wages, increased wage inequality

❑ Nonunion monopsony has macro significance

- Wagner View: Underconsumption
- Mitchell-Erickson View: Labor shortages, lower NAIRU, shallow recessions



Wagner: *Underconsumption*



❑ Small federal govt.
and pre-Keynes

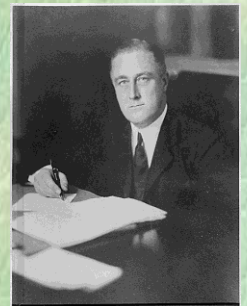


❑ Uncertain role of
central bank



❑ Widespread view:

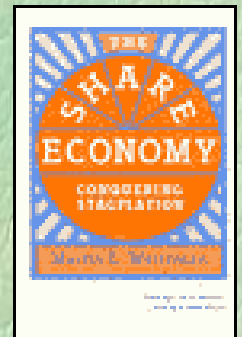
- Marx
- Hoover
- Roosevelt



Mitchell-Erickson Monopsony/Macro View



- ❑ Weitzman's Share Economy
- *"the best idea since Keynes"* (NY Times) - but without the share. Chronic tendency toward labor shortages is an economic stabilizer. Vacancies are "laid off" before real workers.

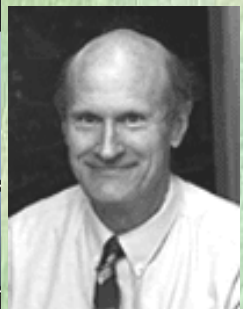
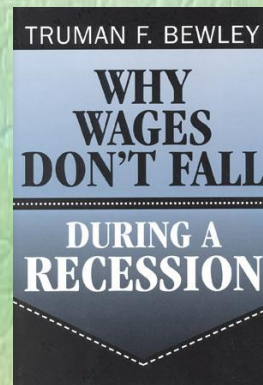
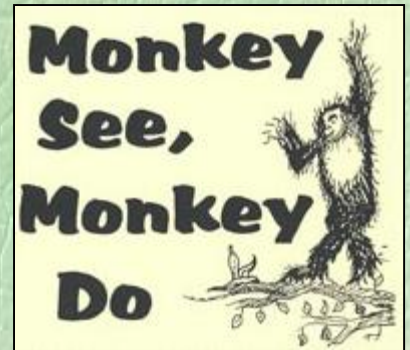
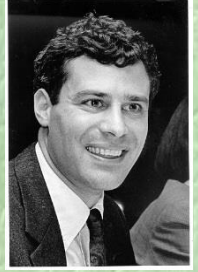


- ❑ Monopsony (which also causes shortages) explains stylized facts of 1980s, 1990s, and beyond without need for hand waving at:
 - Globalization
 - "New Economy"
 - All the other ad hoc and (often) contradictory stories



Why Monopsony?

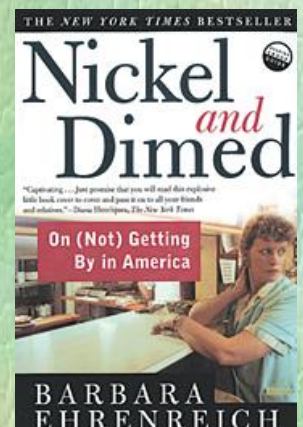
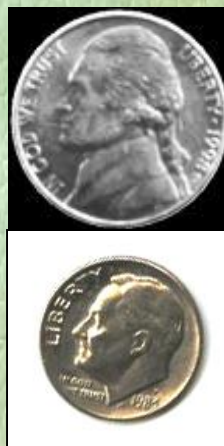
- ❑ Flow model similar to Card-Krueger
- ❑ Benchmarking, a.k.a. copying what others are doing
- ❑ Risk associated with downward nominal wage rigidity
- ❑ Monopsony!
It's not just for nurses anymore!



“... (T)he want ads are not a reliable measure of the actual jobs available at any particular time. They are ... the employers’ insurance policy against the relentless turnover of the low-wage workforce. Most of the big hotels run ads almost continuously, if only to build a supply of applicants to replace the current workers as they drift away or are fired, so finding a job is just a matter of being in the right place at the right time and flexible enough to take whatever is being offered that day.”

Barbara Ehrenreich

Nickel and Dimed



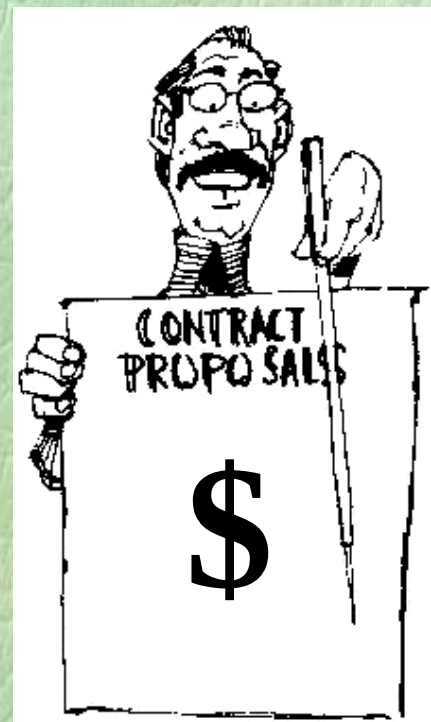
What Freeman and Medoff knew:



From WW2 to 1980, there was much macro concern about union wage-push and there were experiments with wage controls & guidelines in U.S. and abroad.

What Freeman and Medoff didn't and couldn't know

- ❑ By mid-1980s when book appeared amidst falling union membership and concession bargaining, F&M's macro neglect was understandable
- ❑ But macroeconomists continued to think bargaining despite de-unionization
 - What workers “demand”
 - What workers would “accept”
- ❑ And macro policy makers, especially at the Fed, persisted in wage-push thinking



NOT YET DEAD AT THE FED



"The air traffic controllers' confrontation with President Reagan set in motion a fundamental change in policy for this country more than 15 years ago. It is conceivable that we will look back at the UPS strike and say that it, too, signaled a significant change."

**Alan Greenspan at FOMC
in 1997 (!)**



Perhaps if F&M had known that union wage-push ideas still would resonate with policy makers, they might have given more attention to macro.

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